

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

NO SURFACE USE OIL AND GAS LEASE
(Paid-Up Lease)

This Oil and Gas Lease (this "Lease") is made on MAY 21ST, 2008 between Bobby Cox Companies, Inc., (hereafter called "Lessor," whether one or more), whose address is 4055 International Plaza, Suite 450, Fort Worth, Texas, 76109 and Vargas Energy, Ltd., (hereafter called "Lessee"), whose address is 4200 S. Hulen, Suite 614, Fort Worth, Texas, 76109.

1. Grant. In consideration of Ten Dollars and other consideration in hand paid, Lessor grants and leases exclusively unto Lessee the following described land (the "Land") in Tarrant County, Texas, for the sole purpose of exploring, drilling, and producing oil and gas, to produce, save, treat, process, store, and transport oil and gas and other products manufactured from oil and gas produced from the Land:

1.6901 acres of land, more or less, according to the Tarrant County Appraisal District, being a portion of Lot 2, Block 22, Overton South Addition an addition to the City of Fort Worth, Tarrant County, Texas, as conveyed by Cassco Land Co.,

Inc. to Bobby Cox Companies, Inc., as recorded in Volume 14010, Page 548, Deed Records, Tarrant County, Texas. And also being described as Lot 2A, Block 22 in Cabinet A, Slide 7471, Plat Records, Tarrant County, Texas.

2. Mother Hubbard Clause. This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether the same be in said survey or surveys or in adjacent surveys, although not included with the boundaries of the land particularly described above, including the minerals owned by Lessor located in streets, roads, alleys, easements and rights of way adjacent of Lessor's lands described above.

3. Primary Term. This Lease is for a term of three years from this date (called "Primary Term") and as long thereafter as oil or gas is produced in paying quantities from the Land or land pooled therewith or operations are being conducted on the Land or land pooled therewith as provided herein.

4. Minerals Covered. This Lease covers only oil and gas. The term "oil and gas" means oil, gas, and other liquid and gaseous hydrocarbons produced through a well bore.

5. Royalty.

(a) As royalties, Lessee agrees:

(1) To deliver free of cost to Lessor at the wells or to the credit of Lessor at the pipeline to which the wells may be connected, 25% (the "Royalty Fraction") of all oil and other liquid hydrocarbons produced and saved from the Land. At Lessor's option, which may be exercised from time to time, Lessee shall pay to

Lessor the same part of the market value at the well of oil and other liquid hydrocarbons of like grade and gravity prevailing on the day the oil and other hydrocarbons are run from the Lease in the general area in which the Land is located.

(2) To pay Lessor for gas, including all gases, liquid hydrocarbons and their respective constituent elements, casinghead gas, or other gaseous substance produced from the land and sold at points of sale on or off the premises, the Royalty Fraction of the net proceeds derived from such sale calculated at the well. Lessee shall have free use of all gas produced from the Land for all operations hereunder.

(b) Lessor's royalty will bear its proportionate share of all severance and production taxes and of all reasonable costs and expenses necessary to compress, transport, process or treat gas produced from the Land.

(c) The receipt by Lessee from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee acquiring legal or equitable title to those proceeds, but Lessee will at all time hold the proceeds in trust for the benefit of Lessor. Notwithstanding the insolvency, bankruptcy, or other business failure of a purchaser of production from the Land or pipeline company transporting production from the Land, Lessee will remain liable for payment to Lessor for, and agrees to pay Lessor all royalties due Lessor together with interest if not timely paid.

6. Operations.

(a) If, at the expiration of the Primary Term, oil or gas is not being produced from the Land, but Lessee has commenced operations for the drilling of a well on the Land, or lands pooled therewith, the Lease will not terminate but will

remain in effect for so long thereafter as operations are carried out with no cessation of more than 90 consecutive days, and if the operations result in the production of oil or gas, the Lease shall remain in force as otherwise provided herein. For the purposes of this Lease, the term "operations" means operations for any of the following: preparation for and/or drilling, testing, completing, reworking, fracing, recompleting, deepening, plugging back, or repairing of a well in search of or in the endeavor to obtain, maintain, re-establish or enhance production of oil or gas with no cessation of more than 90 consecutive days.

(b) If after the expiration of the primary term production from any well shall cease for any cause, Lessee shall have 90 days from the cessation of production to commence, and thereafter prosecute drilling or reworking operations in a good faith attempt to restore production from the Land or lands pooled therewith with no cessation of more than 90 consecutive days, and if such operations result in production, this lease shall continue for so long as production in paying quantities continues or the lease is otherwise maintained in force.

(c) As a result of land development in the vicinity of the Land, governmental rules or ordinances regarding well sites, and/or surface restrictions as may be set forth in this Lease and/or other leases in the vicinity, surface locations for well sites in the vicinity may be limited and Lessee may encounter difficulty securing surface location(s) for drilling, reworking or other operations. Therefore, since drilling, reworking or other operations are either restricted or not allowed on the Land or other leases in the vicinity, it is agreed that any such operations conducted at a surface location off of the Land or off of lands with which Land is pooled in accordance with this Lease, provided that such operations are associated with a directional well for the purpose of drilling, reworking, producing or other operations under the Land or lands pooled therewith, shall for purposes of this Lease be deemed operations conducted on

the Land. Nothing contained in this paragraph is intended to modify any surface restrictions or pooling provisions or restrictions contained in this Lease, except as expressly stated.

7. Surface Use. Except for seismic surveys, Lessee is prohibited from using the surface of the Land for any purpose, but Lessee may engage in directional drilling activities beneath the Land that are conducted on the surface of other land. Any directional drilling must penetrate the Land sufficiently below the surface as to not interfere with the present or future use of the surface of the Land for commercial or residential use, and in no event may the directional drilling penetrate the Land less than 300 feet below the surface.

8. Shut-in Royalty. At any time after the primary term, while there is a gas well on this Lease or on acreage pooled therewith capable of producing gas in paying quantities, but gas is not being sold, and this lease is not otherwise being maintained in full force and effect, Lessee shall pay or tender, as royalty, in advance an annual shut-in royalty of an amount equal to \$100 per acre covered by this Lease. Payment with respect to a well will be due within 120 days after (a) the well is shut-in or (b) the end of the primary term, whichever is the later date. All subsequent Shut-In Royalty payments will be due on or before the anniversary date of the date of the first Shut-In Royalty payment. While shut-in royalty payments are timely and properly paid, this Lease will be deemed to be held as a producing lease. The obligation of Lessee to pay shut-in royalty is a covenant and not a condition and, if Lessee, for any reason, should fail to make a shut-in royalty payment on or before its due date, Lessor shall notify Lessee in writing of such failure and this Lease shall not terminate as a result of Lessee's failure to make a shut-in royalty payment unless Lessee fails to make such shut-in royalty payment within 60 days from the receipt of written notice from Lessor. The payment or tender of royalty under this paragraph may be made by the check of Lessee mailed or delivered to

the parties entitled thereto on or before the due date. Notwithstanding anything to the contrary contained in this lease, at the option of Lessee, which may be exercised by Lessee giving notice to Lessor, a well which has been drilled and Lessee intends to frac shall be deemed a well capable of producing in paying quantities and the date such well is shut-in shall be when the drilling operations are completed.

9. Pooling. Lessee shall have the right to pool, as to any one or more formations, the Land with other land or leases in the vicinity thereof, to form pooled units for the production of oil and gas or either of them. Units pooled for oil shall not exceed 40 acres, plus a tolerance of 10%, and units for gas shall not exceed 320 acres, plus a tolerance of 10%, provided that if a governmental authority having jurisdiction prescribes or permits a unit for the drilling or operation of a well to be larger than those specified hereunder, units created thereafter may conform substantially in size to those prescribed or permitted by the governmental authority. If the well is a Horizontal Well, as defined in the Rules of the Texas Railroad Commission, the unit may contain the additional acreage permitted by Rule 86 of the Texas Railroad Commission. The unit will become effective when Lessee files in the Real Property Records of the county where the Land is located a document describing the pooled acreage and depths for the pooled unit. Lessee will deliver a copy of the document creating the unit to Lessor, upon request. Lessee may at its election exercise its pooling option before or after commencing operations. Operations for drilling on or production of oil or gas from any part of a pooled unit that includes land covered by this Lease shall be considered as operations on or production of oil or gas from the portion of the Land included in the pooled unit. There shall be allocated to the Land included in the unit that prorated portion of the oil and gas, or either of them, gas produced from the pooled unit that the number of surface acres of the Land included in the unit bears to the total number of surface acres included in the unit. Royalties shall be computed on the portion of production allocated to the Land.

10. Force Majeure. Should Lessee be prevented by reason of Force Majeure from complying with any express or implied covenant of this Lease (other than a requirement to pay money), from conducting drilling or reworking operations on the Land, or from producing oil or gas, then while so prevented, that covenant will be suspended; Lessee will not be liable for damages for failure to comply therewith; this Lease will be extended so long as Lessee is prevented from conducting drilling or reworking operations on or from producing oil or gas from the Land; and the time while Lessee is so prevented will not be counted against Lessee. "Force Majeure" means any Act of God, any federal or state law, scarcity of drilling rigs or other equipment, inability to obtain a drilling permit, any rule or regulation of governmental authority, or other similar cause (other than financial reasons).

11. Warranties. If Lessor owns an interest in the Land less than the fee simple estate, then the royalties payable hereunder will be reduced proportionately. All royalty interest covered by this lease, whether or not owned by Lessor, shall be paid out of the royalty herein provided. Lessor agrees that if Lessor is in default in payment of any mortgages, taxes or other indebtedness secured by Lessor's the Land, including the mineral estate leased hereunder, upon 30 days prior written notice to Lessor, Lessee shall have the right at any time to pay or reduce same to cure the default for Lessor, either before or after maturity; provided, however, that if Lessee discovers the default within 30 days of a foreclosuresale, Lessee will only be required to give 5 days prior written notice. Lessee shall be subrogated to the rights of the holder of any such mortgages, taxes or other indebtedness and authorized to deduct all amounts so paid from royalties or other payments which may become payable to Lessor and/or its successors and assigns under this Lease.

12. Notices. All notices will be deemed given and reports will be deemed delivered if sent by certified letter, return receipt requested, properly addressed and deposited in the United States Postal Service, postage prepaid, to Lessor and Lessee at the addresses shown above. Either party may designate a new address by proper notice to the other party.

13. Insurance. At all times while this Lease is in force, Lessee shall acquire and maintain insurance covering all of its operations on the Land, including any work performed on its behalf by contractors, subcontractors, and others, naming Lessor and related individuals and entities designated by Lessor as additional insureds. The policies shall include coverage for comprehensive general liability, for bodily injury and property damage, blowout and loss of well coverage, and coverage for any damage to the environment, including coverage for the cost of clean up and surface remediation. The coverage shall be in the minimum amount of \$5,000,000.

14. Indemnity. LESSEE AGREES TO INDEMNIFY, DEFEND AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE FOR NUISANCE, FOR INJURY TO OR DEATH OF PERSONS, AND FOR LOSS OR DAMAGE TO PROPERTY, OR ANY OF THEM, INCLUDING, WITHOUT LIMITATION, ATTORNEY FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY OR RESULTING FROM LESSEE'S OPERATIONS OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT

**CONTRACTORS. LESSEE'S INDEMNITY OBLIGATIONS SURVIVE THE
TERMINATION OF THIS LEASE.**

15. Dispute Resolution. In the event of a dispute under this Lease, the parties agree to attempt to resolve the dispute through good faith mediation to be held in Tarrant County, Texas.

16. Miscellaneous Provisions.

(a) In the event this Lease expires for any reason as to all or any part of the Land, Lessee shall, within 60 days thereafter, furnish Lessor with a written, recordable release covering all of the Land or that portion of the Land to be released.

(b) Nothing in this Lease negates the usual implied covenants imposed upon Lessee.

(c) Lessee will conduct all operations hereunder in compliance with the rules of the Railroad Commission of Texas and federal and state environmental laws and regulations. Lessee will give Lessor at least ten days prior notice in writing before conducting seismic operation on the Land.

(d) The terms "production" and "producing" mean production and producing in paying quantities. No obligation of Lessee to pay money under this Lease will be excused or delayed by reason of Force Majeure. Lessee's obligations to pay money under this Lease are to be performed in Tarrant County, Texas. Paragraph headings are used in this Lease for convenience only and are not to be considered in the interpretation or construction of this Lease. The execution or ratification by Lessor of any division order, gas contract, or any other document will

not alter any provision of this Lease unless the intent to do so is expressly stated in the document.

(e) This Lease is binding upon and for the benefit of Lessor, Lessee, and their respective heirs, personal representatives, successors, and assigns.

(f) See Addendum attached hereto for additional provisions.

Executed on the date first written above.

LESSOR:

Bobby Cox Companies, Inc.

By: Bobby D. Cox
Signature

Print: Bobby D. Cox

Title: President

LESSEE:

VARGAS ENERGY, LTD.

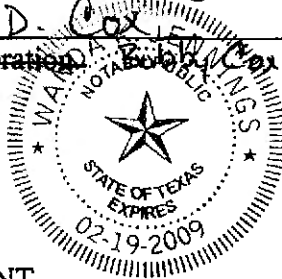
By Plover Production Company, LLC, its sole
General Partner

By: Crawford Edwards
Crawford Edwards, President

STATE OF TEXAS

COUNTY OF TARRANT

This instrument was acknowledged before me on the 21st day of May, 2008, by Bobby D. Cox, President of Texas Tiers I, Ltd. and Odessa Land Corporation, Bobby Cox Companies Inc.

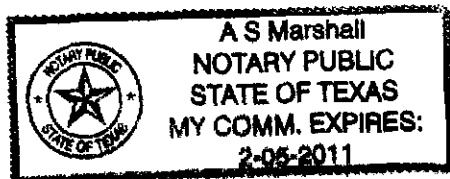


Wanda K. Jennings
Notary Public, State of Texas

STATE OF TEXAS

COUNTY OF TARRANT

This instrument was acknowledged before me on the 5th day of June, 2008, by Crawford Edwards, President of Plover Production Company, LLC, sole General Partner of Vargas Energy, Ltd., a Texas limited partnership, on behalf of the partnership.



A S Marshall
Notary Public, State of Texas

ADDENDUM

Bobby Cox Companies, Inc. / Vargas Energy Ltd. Lease

1. Minerals Leased. Lessee shall not use ground water in its operations whether under the leased premises or adjacent lands.
2. Surface Waiver. Notwithstanding anything herein to the contrary, Lessee shall not use the surface of all or any portion of the leased premises, whether under the Lease or otherwise, including, without limitation, use of the surface of the leased premises to explore, drill or mine for, produce, store, process, market and transport any oil, gas or other minerals, conduct seismic or ingress and egress without the prior written consent of Lessor (which consent can be withheld in Lessor's sole discretion). This waiver shall not be considered as a waiver, release or relinquishment by Lessee of any right, title or interest of Lessee in the oil and gas on or under, or that may be produced from the Leased premises or any portion thereof (whether under the Lease or otherwise), except as to the surface use rights incident thereto for which consent to use is not given by Lessor as provided above. No drillsite operations will be conducted within 1000 feet of the Land.
3. Royalties. The royalties to be paid by Lessee on gas, including casinghead gas or other gaseous substances produced from the leased premises or sold or used on or off the leased premises or for the extraction of gasoline or other products therefrom, shall be 25% of the value at the point of final delivery to the first purchaser, and not at the well, of all gas (including casinghead gas) and all other substances (excluding oil) covered hereby, free of all costs and expenses. For purposes hereof, "value" is defined as the price actually received by Lessee for the sale of gas and all other substances (excluding oil) produced and saved hereunder, provided the same is sold under an arms-length and competitively negotiated contract for the sale of such product. Upon written request, Lessee shall make available for Lessor's review a summary of the pricing provisions of any gas contract entered into between Lessee and such unaffiliated entity for gas sold from the Leased Premises, and Lessor shall not disclose the terms of such contract to any party without the prior written consent of Lessee. Lessor shall also be entitled to their 25% royalty share of any take-or-pay or similar payments received in connection with any gas contract modification or termination. Lessee shall pay royalty on all gas produced from the Leased Premises, and Lessee shall have no right to free use of gas produced from the Leased Premises for any purpose, including any operations under this lease. Notwithstanding anything herein to the contrary, the royalties accruing under this lease shall be determined and delivered to Lessor free of any deduction for any costs of development, production, compression, processing, treating, gathering, transportation, delivery, marketing, or any part of the costs of construction, operation, or depreciation of any plant or other facilities or equipment used in the handling of oil, or gas, or any other post-production costs of any nature, excepting however: (i) taxes of any character applicable to Lessors' share of production that are paid by Lessee; and (ii) Lessor's proportionate part of any post-production costs charged for arms-length services by a third-party not affiliated with Lessee. It is the intent of the parties that the foregoing provisions of this paragraph are to be fully

enforceable and effective and are not to be construed as "surplusage" under the principles set forth in *Heritage Resources v. NationsBank*, 939 S.W.2d 118 (1997).

4. Pooling / Unitization. All of the leased premises will be included in one or more pooled units prior to the end of the primary term, and failure to do so will cause termination of this Lease. The entire leased premises must thus be producing in paying quantities or deemed to be "capable of" producing in paying quantities by virtue of payment of shut-in royalties in order to extend the term of this Lease.

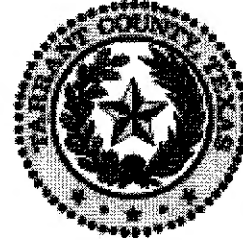
5. Acreage Retained. This Lease shall continue in force and effect after the primary term of any extension of such primary term as permitted by continuous drilling operations being conducted at the end of the primary term as allowed in this Lease, only as to: (i) that portion of the leased premises actually included at that time in a producing oil or gas unit, if Lessee is not required to pool or unitize all of the leased premises under the terms of this Lease, and (ii) all rights lying below one hundred (100) feet below either (1) the deepest depth drilled in any well drilled on the leased premises or on lands pooled therewith, or (2) the stratigraphic equivalent of the base of the deepest formation producing or capable of producing in any well drilled on the leased premises or on lands pooled therewith, whichever is the deepest. This Lease shall terminate by its terms as to all portions of the leased premises and depths not actually included in such producing unit or units.

6. No Warranty. This lease is made by Lessor without express or implied warranty or covenant of title. All warranties which might arise by common law or by statute, including but not limited to § 5.023 of the Texas Property Code (or its successor) are excluded.

7. Offset Wells. If the nearest bottom-hole producing perforations in a well capable of producing oil or gas or other hydrocarbons in paying quantities should now exist or hereafter be completed within 330 feet of the leased premises, or within such greater distances as may be established by a Regulatory Body as a part of a drilling or spacing pattern for the field, then, within one hundred and eighty (180) days after such well shall have been completed, (but subject to paragraph 12 hereof), Lessee shall either commence operations for and thereafter diligently prosecute the drilling of an offset well at a permitted location which is reasonably designed to protect the leased premises from drainage or release and surrender all of Lessee's rights hereunder unless the leased premises has already been designated as part of a producing well unit.

8. Assignment. Lessee may not assign this Lease without Lessor's prior written consent except that Lessor hereby approves an assignment to XTO Energy, Inc. Consent cannot be unreasonably withheld.

**Holland Acquisitions
309 W 7th Street, Suite 300
Fort Worth TX 76102**



HOLLAND ACQUISITIONS
309 W 7TH ST SUITE 300

FT WORTH TX 76102

Submitter: HOLLAND ACQUISITIONS INC

SUZANNE HENDERSON
TARRANT COUNTY CLERK
TARRANT COUNTY COURTHOUSE
100 WEST WEATHERFORD
FORT WORTH, TX 76196-0401

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WARNING - THIS IS PART OF THE OFFICIAL RECORD.

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Instrument #: D208216886
LSE 14 PGS \$64.00

By: _____



D208216886

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